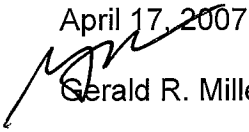
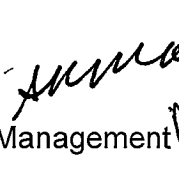
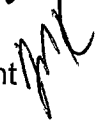




City of Long Beach

Working Together to Serve

Memorandum

Date: April 17, 2007
To:  Gerald R. Miller, City Manager
From: Suzanne R. Mason, Deputy City Manager 
Michael A. Killebrew, Director of Financial Management 
For: Members of the Budget Oversight Committee
Subject: **April 17, 2007 Budget Oversight Committee Meeting**

At the request of the Budget Oversight Committee at their March 20, 2007 meeting, the following information is attached for your review

1. Updated RDA Repayment Schedule-Downtown Project Area (Attachment A)
2. Plan for Budget Community Outreach (Attachment B)
3. Review Financial Policies 4-8 (Attachment C)

Attachments

CC: MAYOR AND MEMBERS OF THE CITY COUNCIL
CHRISTINE F. SHIPPEY, ASSISTANT CITY MANAGER
REGINALD I. HARRISON, DEPUTY CITY MANAGER
ROBERT SHANNON, CITY ATTORNEY
THOMAS REEVES, CITY PROSECUTOR
LAURA DOUD, CITY AUDITOR
DEPARTMENT HEADS

DOWNTOWN LOAN PAYMENTS TO THE CITY OF LONG BEACH *WITH* ACCELERATED PAYMENTS FROM THE PIKE DEVELOPMENT
LONG BEACH REDEVELOPMENT AGENCY
4/11/2007

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	
DOWNTOWN REDEVELOPMENT PROJECT AREA--WITH PIKE PAYMENTS													
(Redevelopment Plan effectiveness expires on June 17, 2017)													
Revenue: Net Tax Increment ^a	11,830,000	12,477,000	12,743,000	12,895,000	13,276,000	13,528,000	13,785,000	14,046,000	14,313,000	14,585,000	14,863,000	15,147,000	
Expenses													
Operating expenses ^b	1,631,086	1,575,780	1,459,253	1,418,731	1,461,293	1,505,132	1,550,286	1,596,794	1,644,698	1,694,039	1,744,860	0	
Financing Costs (Debt Service and Interim Loan)	7,394,121	7,430,209	7,481,988	7,483,732	7,456,906	7,459,393	7,464,824	7,466,748	7,464,880	7,448,043	7,465,635	7,321,507	
City Debt Repayment from Pike Tax Increment ^c	683,025	696,685	710,619	724,831	739,328	754,115	769,197	784,581	800,272	816,278	832,603	0	
CDBG Loan Repayment (Open Space Bond)	0	0	0	0	0	0	0	0	0	0	0	2,200,000	
Other City Debt Repayment (UDAG, Title IX, General Fund)	0	0	0	0	0	0	0	0	0	0	0	5,625,493	
Tax Increment Available for Projects ^c	2,121,768	2,774,326	3,091,140	3,267,706	3,618,473	3,809,361	4,000,694	4,197,876	4,403,149	4,626,640	4,819,902	0	
Budgeted Projects	8,915,225	10,227,250	9,770,250	7,380,250									
Differential	(6,793,457)	(7,452,924)	(6,679,110)	(4,112,544)									
Debt to the City @ 5.0%	(FY07 - \$88,596,418)	90,216,256	91,822,435	93,414,679	94,992,712	96,556,247	98,104,996	99,638,663	101,156,945	102,659,536	104,146,122	105,616,382	100,093,752

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Totals
DOWNTOWN REDEVELOPMENT PROJECT AREA--WITH PIKE PAYMENTS													
(Redevelopment Plan effectiveness expires on June 17, 2017)													
Revenue: Net Tax Increment ^a	15,435,000	15,729,000	16,031,000	16,337,000	16,649,000	17,258,000	17,294,000	17,624,000	17,963,000	15,621,000	15,917,799	16,220,237	\$361,567,036
Expenses													
Operating expenses ^b	0	0	0	0	0	0	0	0	0	0	0	0	\$17,281,952
Financing Costs (Debt Service and Interim Loan)	7,315,345	7,319,607	7,316,945	7,312,989	7,214,613	7,308,263	0	0	0	0	0	0	\$133,125,748
City Debt Repayment from Pike Tax Increment	0	0	0	0	0	0	0	0	0	0	0	0	\$8,311,534
CDBG Loan Repayment (Open Space Bond)	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	8,800,000	0	0	\$30,800,000
Other City Debt Repayment (UDAG, Title IX, General Fund)	5,919,655	6,209,393	6,514,055	6,824,011	7,234,387	7,749,737	15,094,000	15,424,000	15,763,000	6,821,000	969,149	0	\$100,147,880
Projects ^d	0	0	0	0	0	0	0	0	0	0	0	0	\$40,731,035
Debt to the City @ 5.0%	94,276,961	88,170,431	81,759,240	75,038,092	67,906,569	60,259,695	45,268,558	29,947,422	14,287,285	969,149	0		

^a Net tax increment excludes administrative fee paid to the County of Los Angeles and the 20% Housing Set-Aside.

^b Operating expenses escalated at 3% per year.

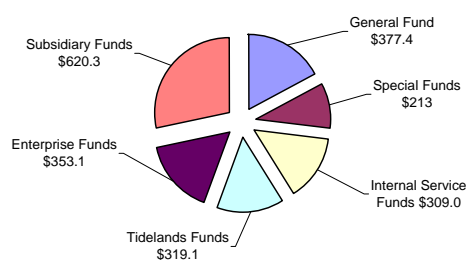
^c Schedule assumes a 2-percent inflationary growth. If the two proposed LodgeWorks hotel is constructed in the Pike the assessed value would increase by an estimated \$20 million, providing an additional \$200,000 of gross tax increment or \$156,000 of net providing an additional \$200,000 of gross tax increment or \$156,000 of net tax increment.

^d Excludes projects funded by revenues other than tax increment, such as bond proceeds and grants.

***The City of Long Beach
Financial Strategic Plan:
Ensuring a Sustainable Fiscal Future***

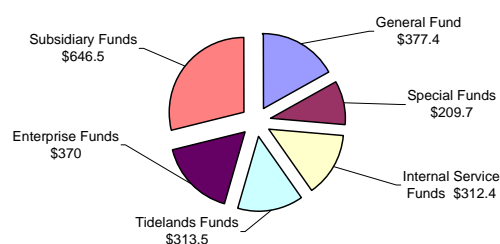
Since Fiscal Year 2000 (FY 00), tax revenue and other resources to support General Fund services have declined dramatically as expenditures increased. The General Fund makes up approximately 18.7 percent of the total City budget, and is funded through revenue from taxes, fees and other sources to support many core City functions. The top General Fund revenues include: Property Taxes, Sales Taxes, Utility Taxes, Vehicle License Fees and Transient Occupancy Taxes. In FY 07, the current fiscal year, General Fund revenue sources are expected to total approximately \$377.4 million. This revenue is used to pay for many critical City services, such as Police, Fire, Emergency Medical Response, Libraries, Parks, Recreation, Code Enforcement, Sidewalk Replacement, and Facility and Infrastructure Maintenance.

**FY 07 Adopted Revenues
All Funds (in millions)
(Total = \$2.2 billion)**



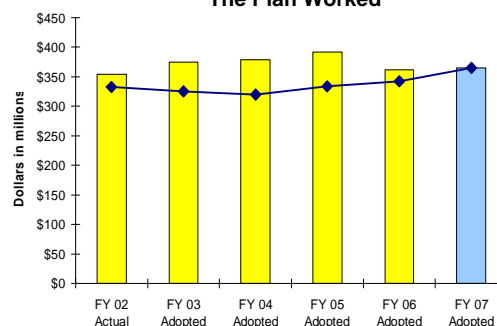
The reduction in General Fund revenue over the past several years was the result of many factors, including a voter-approved reduction in the Utility Users Tax (from 10 percent to 5 percent), which resulted in a loss of over \$40 million, State shifts in revenue from local governments and the continuing effects of lagging economic conditions. Complicating matters were increasing General Fund expenses, primarily due to escalating workers' compensation, retirement, employee health benefit and general liability insurance costs. These shifts in revenue and expense led to a structural deficit in the General Fund, which four years ago was projected to grow as large as \$102 million (or almost 30 percent of the General Fund). In FY 07, the General Fund expenditure budget is \$377.4 million.

**FY 07 Adopted Expenditures
All Funds (in millions)
(Total = \$2.2 billion)**



As you will notice from the pie charts, in FY 07 the General Fund's adopted revenues and expenses are structurally balanced. After four difficult years, through great sacrifice, teamwork and dedication, the City eliminated the projected \$102 million structural deficit through its Financial Strategic Plan (Plan). Under the leadership of the Mayor and City Council, and with clear and consistent input from community stakeholders, hundreds of difficult decisions were made which comprise \$73.4 million in cost reductions and \$28.6 million in revenue adjustments, including the elimination of over 400 positions, reduced service levels, optimization of service delivery and increased participation by employees in paying a portion of benefits costs. During this time of downsizing, most core services were protected; however, the organization's ability to provide the full extent and array of service was significantly impacted. The following chart demonstrates the dramatic impact the Plan had on the City's General Fund structural deficit. The vertical bars represent ongoing expenditures, while the horizontal line represents ongoing revenue.

The Plan Worked



City Operations Have Changed As A Result

As a result of the evolution required by this downsizing, the organization now has a focus on optimized service delivery, cost recovery, performance management and prioritization of City services; four essential mechanisms to ensure the public's limited resources are utilized in as efficient and as meaningful a way as possible. These mechanisms will be critical to maintaining fiscal sustainability; however, the ongoing effort continues to be challenged by budgetary, service delivery and other demands.

Financial Challenges Remain

Though the FY 07 adopted General Fund was balanced, it was only tenuously so. There are many competing service demands on the horizon for the City, with desperately needed investments in our streets, alleys, sidewalks and City facilities. There also continues to be a desire to increase funding for public safety services. Recently negotiated public safety pay increases, designed to retain police officers in a highly competitive labor market will, encumber anticipated revenue growth in the General Fund for the next three years. In addition, community interest remains in increasing the size of the police force.

Beyond these needs is the requirement to address deferred employee salary adjustments, a shrinking labor pool and a robust job market, making it very difficult to attract and retain the quality workforce required to provide the programs and services the community expects and deserves.

Without continued restraint, planning and thoughtful decision-making about these emergent issues, the City could again find itself with its commitments far outstripping the resources required to pay for them. The City is managing a razor thin budget and must proactively take steps to be prepared for changes, whether they are within its control or not.

It is a critical objective that the FY 08 Budget be developed with the same dedication and adherence to the principles of fiscal responsibility and cost recovery, as they were the past four years. The City must continue to listen to the community about its priorities for the future. Building on this critical feedback, the Mayor and City Council can then provide clear policy direction around which staff can prepare the FY 08 budget. Using performance management, departments must further align these priorities and department objectives with the resources available.

The Community's Voice Remains At The Heart of Budget

Community outreach continues to be an essential component of the City's budget development process and the Plan. Each year, City Manager and Financial Management staff attend over 60 City commission, committee and neighborhood association meetings to brief the community on the condition of the budget and obtain their feedback on service priorities.

In an effort to get even further community input on current City services and the development of next year's budget, a Community Survey was initiated to solicit telephone feedback from across the city, in every City Council district. The survey will provide additional information on satisfaction with services, prioritization of programs and overall importance of key community issues like neighborhood safety, quality of life and infrastructure. The results will be delivered in full to the Mayor and City Council and used by City staff to develop the City Manager's Proposed Budget.

In addition, City Council's Budget Oversight Committee holds monthly meetings to monitor budget performance and discuss ideas for future budgets. The chart above highlights several upcoming opportunities for public discussion of the City's budget.



Event	When
Budget Oversight Committee Meetings	3 rd Tuesday of every month at 3:00 pm in Council Chambers beginning January 2007
Neighborhood Commission, Committee and Board Meetings	April, May, and June 2007
Budget Workshop: Preview of the FY 08 Proposed Budget	June 12, 2007*
Citywide Budget Summit	July 14, 2007*
Proposed Budget to Mayor	August 1, 2007*
Proposed Budget to City Council	August 14, 2007*
Budget Workshops and Hearings	August 21, 2007*
	September 4, 2007*
	September 11, 2007**
	September 18, 2007**

* Dates are tentative; could change if Charter amended

** If needed

We Must Continue to Maintain Our Fiscal Stability

In 2004, the City Council adopted financial policies aimed at ensuring the use of sound financial practices to prevent future deficits. These policies provide a framework for policy makers and staff that ensure greater transparency, the effective allocation of resources and a continued focus on keeping expenses in line with resources.

In addition, the Plan continues to be the City's primary tool to ensure expenditures do not exceed the revenue required to fund them. The Plan provides a continued three-year outlook on the General Fund's budget requirements and projected resources to inform decisions about future needs and limitations. As a planning tool, the Plan will continue to be updated continually to reassess the condition of the General Fund, address changes in the financial and service delivery environment, and to make appropriate adjustments to ensure it reflects the City Council and community's priorities.

For FY 08, the City Manager has committed to submitting a structurally balanced budget to the Mayor and City Council, one that provides options to the Mayor and City Council for desired changes. Staff will recommend maintaining the current investment in our infrastructure, and to continue to fund police services at a level that produced the lowest crime rate since Long Beach began tracking these statistics over 36 years ago.

The City Council must then make some difficult decisions about desired service levels and investing the City's limited resources; without additional resources, it will be impossible to address the full extent of the needs and priorities of the community. Therefore, your voice in upcoming deliberations will be critical to ensure the General Fund budget best reflects the community's informed priorities.

For more information on the FY 07 Budget and the Financial Strategic Plan please visit our website at: www.longbeach.gov/finance/budget. Alternatively, you may register for instant City Budget and Financial updates via the City's email notification system at www.longbeach.gov/enotify.

City of Long Beach Financial Policy Statements

IV. Use of One-Time Resources

A. Policy

Once the General Fund Budget is brought into structural balance, one-time resources such as proceeds from asset sales, debt refinancing, one-time grants, revenue spikes, budget savings and similar non-recurring revenue shall not be used for current or new ongoing operating expenses. Appropriate uses of one-time resources include establishing and rebuilding the Emergency Reserve and the Operating Reserve, early retirement of debt, capital expenditures and other non-recurring expenditures.

B. Purpose

To insure that the City maintains a structurally balanced budget and does not use one-time resources to increase the base budget that cannot be sustained by ongoing resources.

C. Definitions and Details

1. One-time resources are resources that the City cannot reasonably expect to receive on an ongoing basis. The source is most likely one-time if any of the following apply:
 - a. Will not be available the next fiscal year.
 - b. Has a set ending date such as 12-18 months from today.
 - c. Results from a one-time spike.
 - d. Results from a revenue spike as defined in Policy Number II.
 - e. Results from temporary expenditure savings.
2. One-time resources include bond or debt proceeds, bond-refinancing proceeds, money from the sale of assets, one-time grant funds, budget surpluses, and fund balance

V. Use of New Discretionary Revenues

A. Policy

Once the General Fund budget is brought into structural balance, a minimum of 10 percent of all new (ongoing) discretionary revenue will be devoted to capital projects including deferred maintenance and infrastructure needs.

B. Purpose

To insure the designation of a proportionate and ongoing share of the annual budget for the needed care and construction of physical plant and infrastructure.

C. Definitions and Details

1. This policy applies to the net increase of all discretionary General Fund recurring revenues (e.g., tax revenue, non fee-based revenue [necessary for providing services]).
2. The designation of these funds in no way displaces or substitutes for the funds already being budgeted for capital projects.
3. Examples of projects qualifying for funding under this provision include such projects as facility repairs, roof repairs, street repairs, air conditioning repair or replacement, replacement of flooring, elimination of mold,

VI. Accounting and Financial Reporting

A. Policy

The City will conform to Generally Accepted Accounting Principles as promulgated by the Governmental Account Standards Board (GASB). Reporting will include the following:

1. Interim Financial Reports: Staff will prepare monthly reports for the City Council that analyze and evaluate financial performance.
2. Red Flag Exceptions: The City Manager shall advise the City Council of troubling and/or positive financial information including an assessment of the impact of the City Budget and financial condition. Thresholds for this reporting include:
 - a. Whenever a major expenditure exception occurs that will impact a fund's expenditure budget by one percent or totals over \$500,000; and
 - b. Whenever a major revenue exception occurs that will impact a fund's revenue budget by one percent or totals over \$500,000.

B. Purpose

To keep the City Council apprised of the financial condition of the various City funds. This includes an early alert on major exceptions that can have a positive or negative impact on the City Budget.

C. Definitions and Details

1. Monthly financial reports (interim financial reports) will be prepared and submitted to the City Manager, and transmitted to the City Council off agenda.
2. At a minimum, a formal presentation on the City's financial condition will be made quarterly to the City Council. During times of high or unusual activity, the City Manager may elect to increase the frequency of formal presentations.
3. Anomalies that occur will be called out in the body of the report or will be explained in footnotes in the financial report.
4. In general, a red flag exception occurs whenever a major expenditure or revenue exception impacts a fund's total expenditure budget by one percent or totals over \$500,000. However, it is not the intent to report every fluctuation that occurs in the annual budget. The following criteria should be used by staff as guidance for identifying red flag exceptions.
 - a. The exception is significant and not part of a normal pattern.
 - b. The exception will most likely negatively or positively impact the ending balance in the department or fund at the end of the fiscal year.
5. Red flag exceptions can be communicated to the City Council in two manners. Most red flag exceptions will be communicated in the next monthly financial report. However, if the issue is critical and time sensitive, it will be communicated by a separate communication.

VII. User Fees and Charges

A. Policy

The City of Long Beach is empowered to recapture, through fees, up to the full cost of providing specific services. Regular and consistent review of all fees is necessary to ensure that the costs associated with delivery of individual services have been appropriately identified, and that the City is fully recovering those costs. It is the City's policy to set user fees at full cost recovery levels, except where a greater public benefit is demonstrated to the satisfaction of the City Council, or when it is not cost effective to do so.

B. Purpose

To determine the full costs of providing specific services so that the City Council can make informed decisions as to the appropriate levels of fees for services that may be

imposed to avoid providing unwanted subsidies. The City Council may decide against full cost recovery in cases where greater public benefit is demonstrated.

C. Definitions and Details

1. Every service supported by user fees or charges will be analyzed on a regular basis to determine the net cost of providing the service.
2. Net cost will be determined by identifying all revenues generated or attributed to the service and subtracting all cost elements (direct and indirect expenses, capital outlays and other one-time expenses). The resulting figure will be level of subsidy, which the City Council will use as a basis for determining user fee increases or decreases.
3. If it is determined that there is a net cost to providing the service, the City Council will raise user fees to achieve full cost recovery, unless it is decided that the subsidy should be maintained.
4. Additional information may be necessary to aid in the decision as to whether or not a service should be subsidized (public benefit, cost-effectiveness, etc.)

VIII. Grants

A. Policy

City staff will seek out, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant above \$50,000 is pursued, staff shall provide a detailed pro-forma to the City Manager that addresses the immediate and long-term costs and benefits to the City. A proforma must be submitted to the City Manager for all grants prior to accepting the grant award.

B. Purpose

To provide guidance to staff to seek out federal, state and other grants that address the City's priorities and policy objectives while ensuring positive benefit to the City.

C. Definitions and Details

1. Any grant request must be consistent with the City's Strategic Plan 2010 and the department's mission.
2. City departments are encouraged to submit applications for cost effective grants that help the City achieve its mission and goals.

3. Staff shall develop a proforma for the City Manager that includes the following elements:
 - a. How the grant relates to the City's Strategic Plan 2010 goals, City Council goals and Three-Year Financial Strategic Plan goals.
 - b. Anticipated benefits
 - c. A cost estimate (by character of expense) showing anticipated start-up costs and projected ongoing costs. Costs must include both direct costs (personnel, benefits, current expenses, capital, training) and overhead costs (insurance, legal, administrative)
 - d. Detailed revenue budget showing estimated revenues and sources, matching funds (cash or in-kind) required and their source
 - e. Other departments impacted by grant requirements and results
 - f. Project status after grant funding expires
 - g. Other requirements
 - h. If grant is reimbursable or advance funds
4. The proforma to the City Manager must also include a risk analysis including assumptions and a contingency plan if, for example:
 - a. Funds are not received or are received later than planned
 - b. Actual funding falls short of the budget commitment
 - c. Expenses are ruled ineligible or overdrafts are incurred
5. If funding has not been identified for continuing an ongoing program after grant funds have been exhausted, an automatic sunset provision will be included in the City Council authorization for the program.
 - a. The program will automatically terminate at the end of the fiscal year when grant funds cease if additional funding has not been secured
 - b. The program will continue if ongoing funding is identified or the City Council determines that the program should be funded
6. Proforma must be routed for review with any City Council letter requesting grant approval.